

The Agricultural Risk Protection Act--5 Years Later

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Crop Insurance and Disaster Assistance in the 1990s

- 1994 Crop Insurance Reform Act
 - CAT
 - Mandatory linkage
- Participation is high, but producers are generally insured at lower levels of coverage with many insured at CAT level
- Multi-year losses in Northern Plains adversely affect yield guarantees
- 1998 drought in Texas, Southeast
- Ad hoc disaster assistance 1998, 1999, 2000
- Reforms needed to increase participation to obviate need for disaster assistance

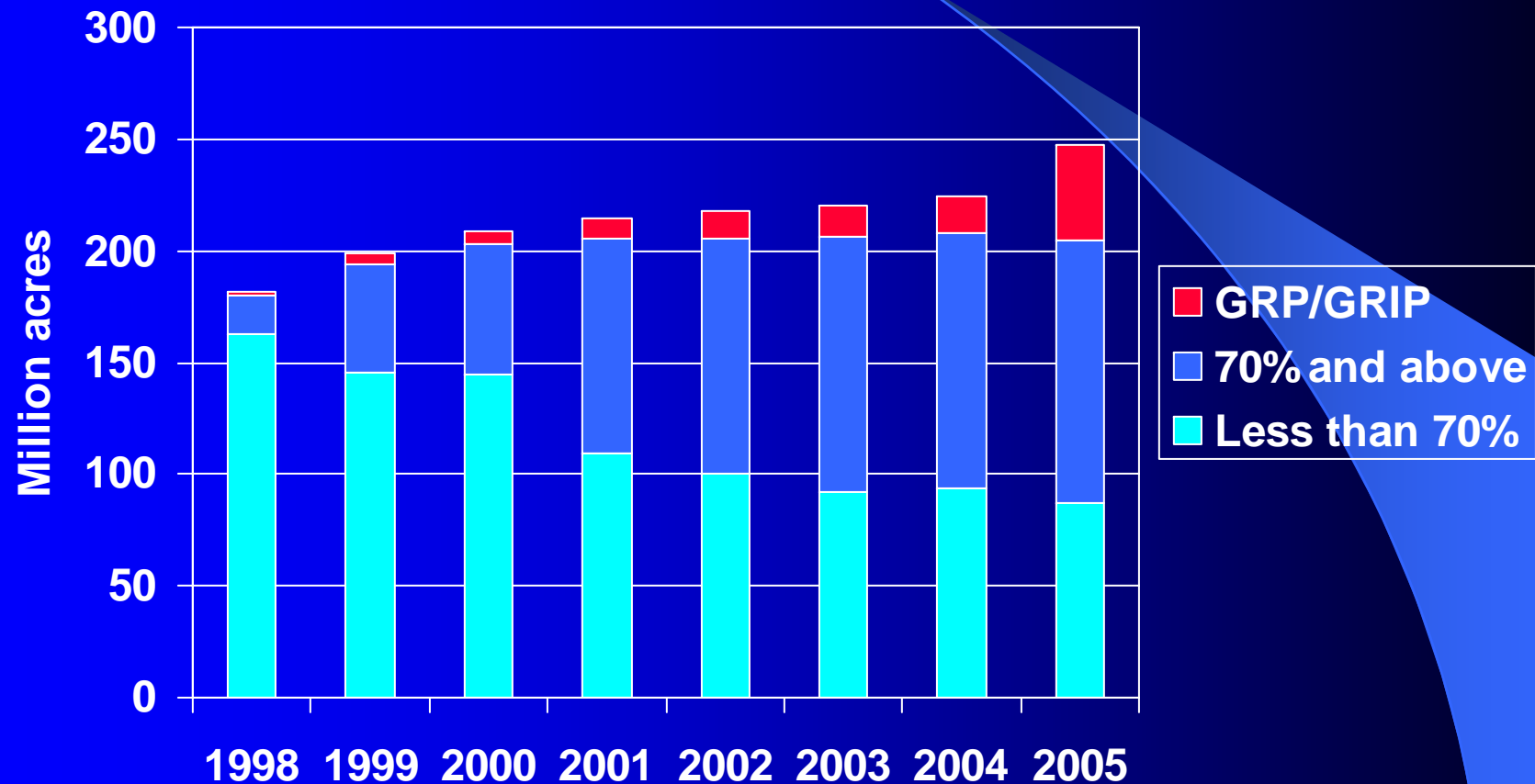
Agricultural Risk Protection Act

- Increases premium subsidies for all buy-up levels of coverage
- Sets a floor under a producer's annual yield for establishment of yield guarantee
- Extends insurance coverage to livestock on pilot basis
- Encourages private sector development of new products through reimbursement of R&D costs
- Extends Noninsured Assistance Program
- Measures to control waste, fraud and abuse
- Estimated cost: \$8.2 billion over FY 2001-05, \$6.7 billion for additional premium subsidies

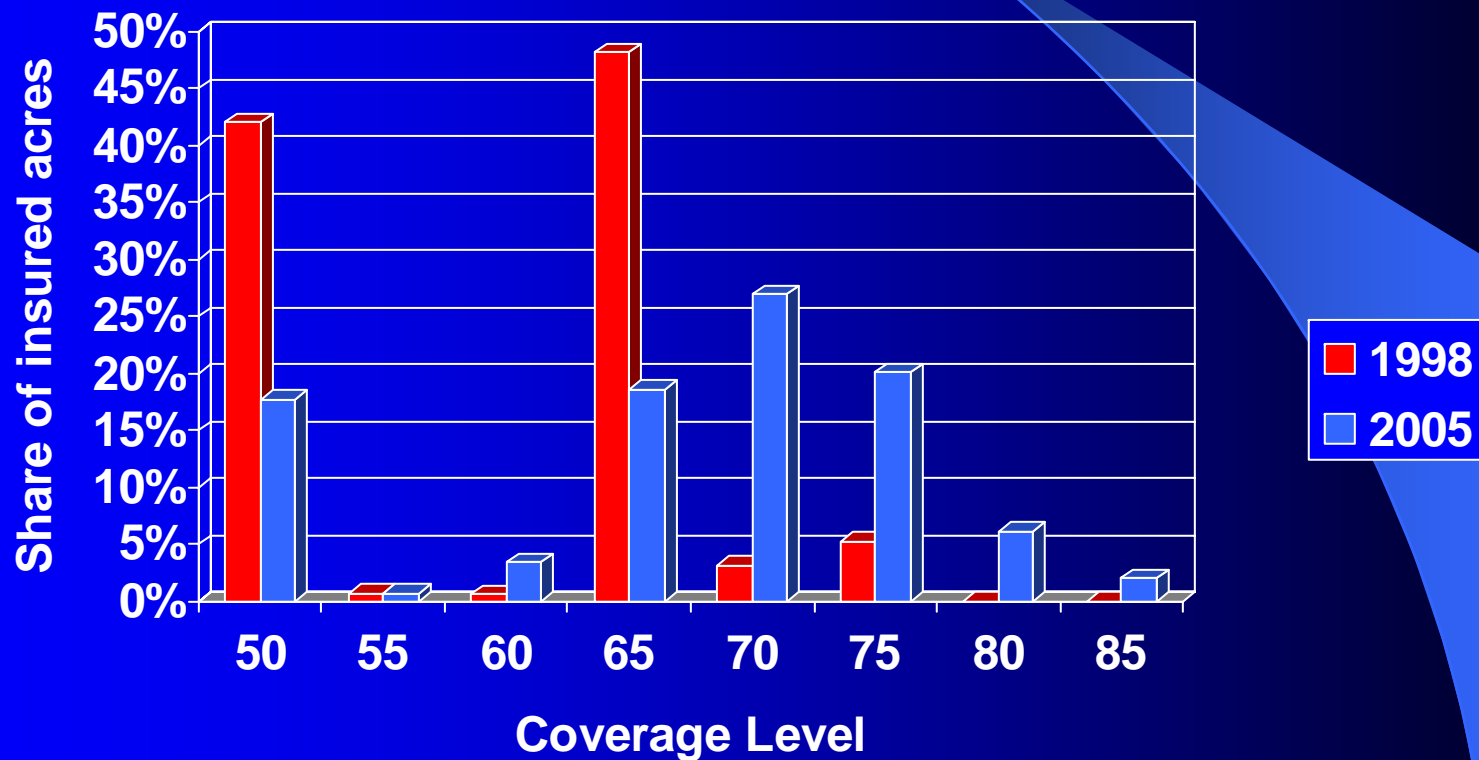
I. Premium Subsidy Rates Increase

Coverage level	1980 Act	1994 Act	ARPA 2000
55%	30.0	46.1	64.0
65%	30.0	41.7	59.0
75%	16.9	23.5	55.0
85%	---	13.0	38.0

Participation at Higher Coverage Levels Increases Under ARPA

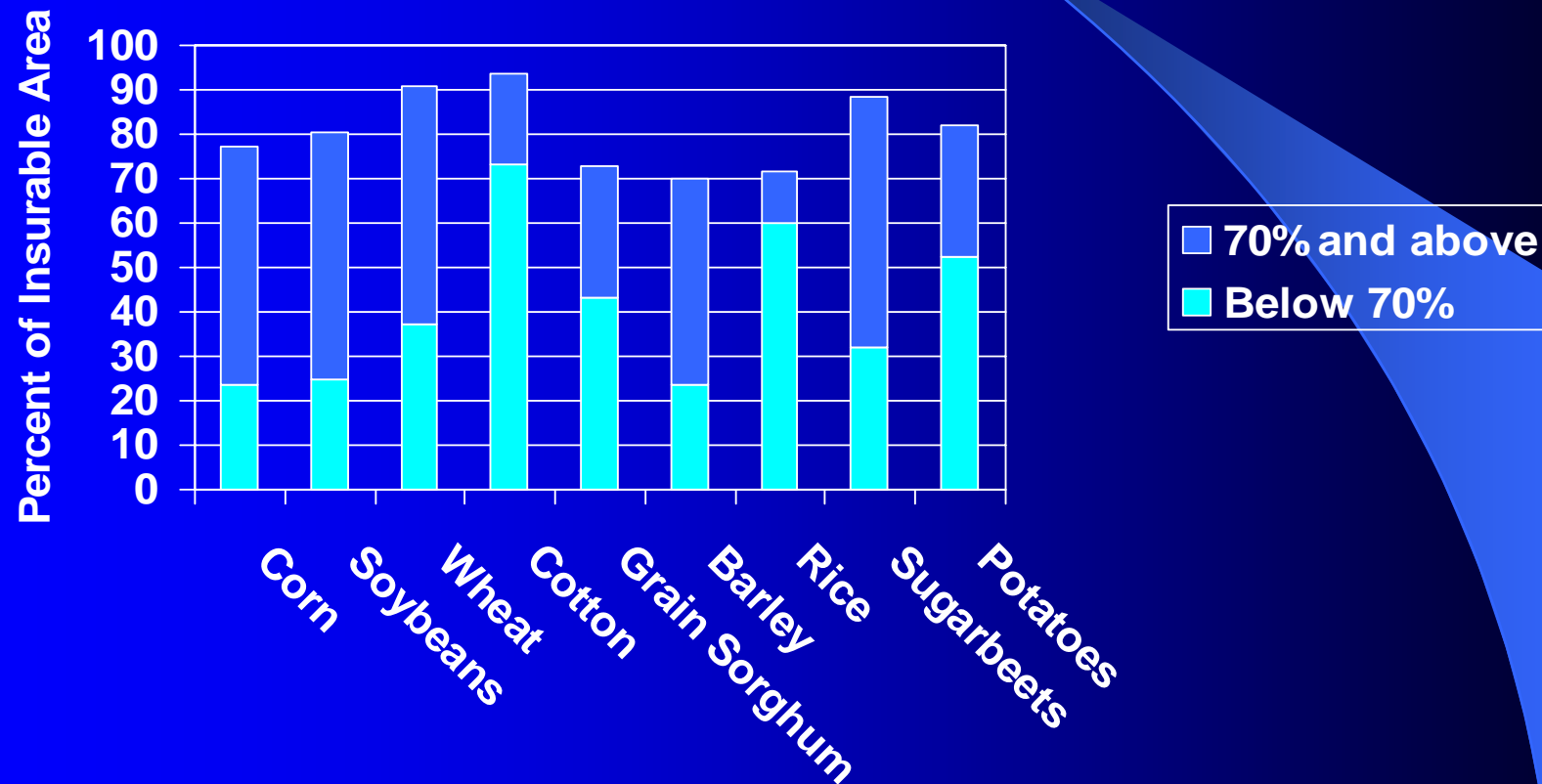


Distribution of Insured Acres

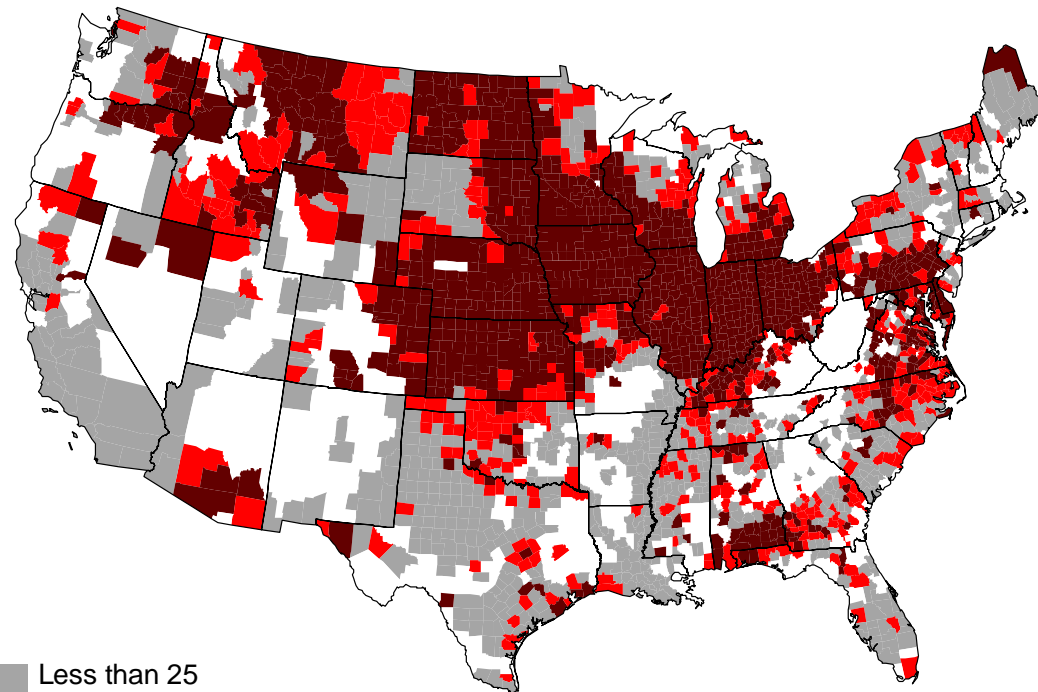


Excludes area based plans (GRP/GRIP)

Share of Planted Acres Insured, 2005



Percent of Area Insured at Coverage Levels of 70 Percent or Greater, 2005



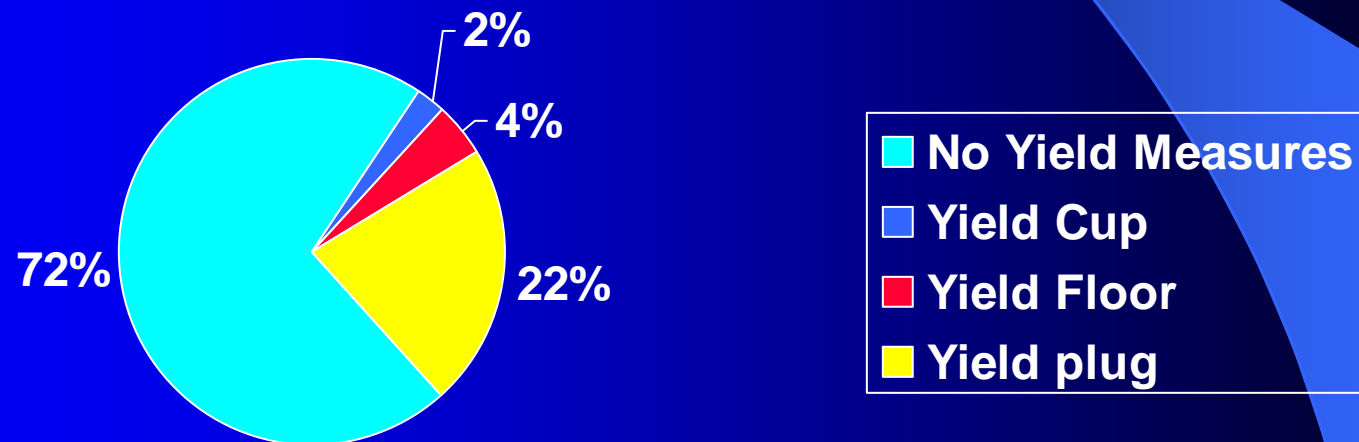
Less than 25
25 - 50
More than 50

II. Declining Yields

- APH: based on 10 year yield history
- Multiple losses adversely affect APH
- Yield floor: producers with more than 4 years of actual yields can substitute yield floor equal to 80% of the county transition yield for the commodity
- ARPA: allows producers to substitute low yield with “yield plug” equal to 60% of the county transition yield for that commodity
- Premium rates are based on actual yields

Use of Yield Adjustment Measures, 2003

Percent of policies



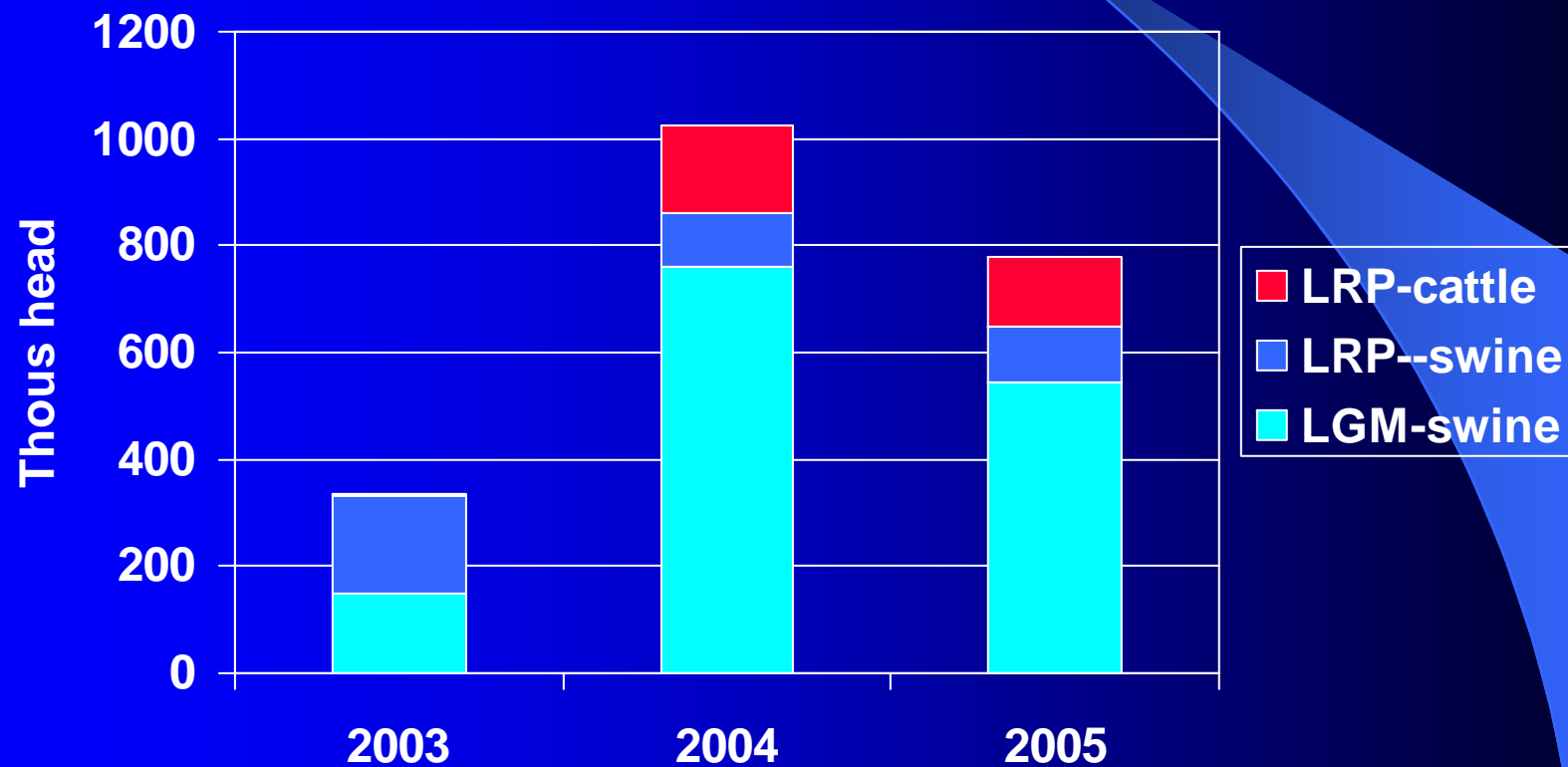
Declining Yields

- Producers complain that even with yield plug, yield floor, and yield cups, multiple year losses may bias APH
- “Lake Wobegon Effect” (all yields are above average)
- Are 10 years of data sufficient to characterize producers’ yield distribution?
 - Regions with high yield variation (e.g., Northern and Southern Plains)
- Yield indexing with county yields may allow use of longer time series to better characterize distributions

III. Insuring Livestock

- Federal Crop Insurance Act specifically excludes livestock from insurance coverage
- ARPA authorizes pilot programs to evaluate effectiveness of risk management tools for livestock producers
 - Annual spending limits: \$20 million
- Livestock insurance pilot offered for first time in 2003 for swine in Iowa
 - LRP: price-based derivative
 - LGM: covers margin between hog price and feed costs
- LRP extended to fed cattle and feeder cattle
- LGM for cattle to be offered in 2006
- Products for dairy, lamb?

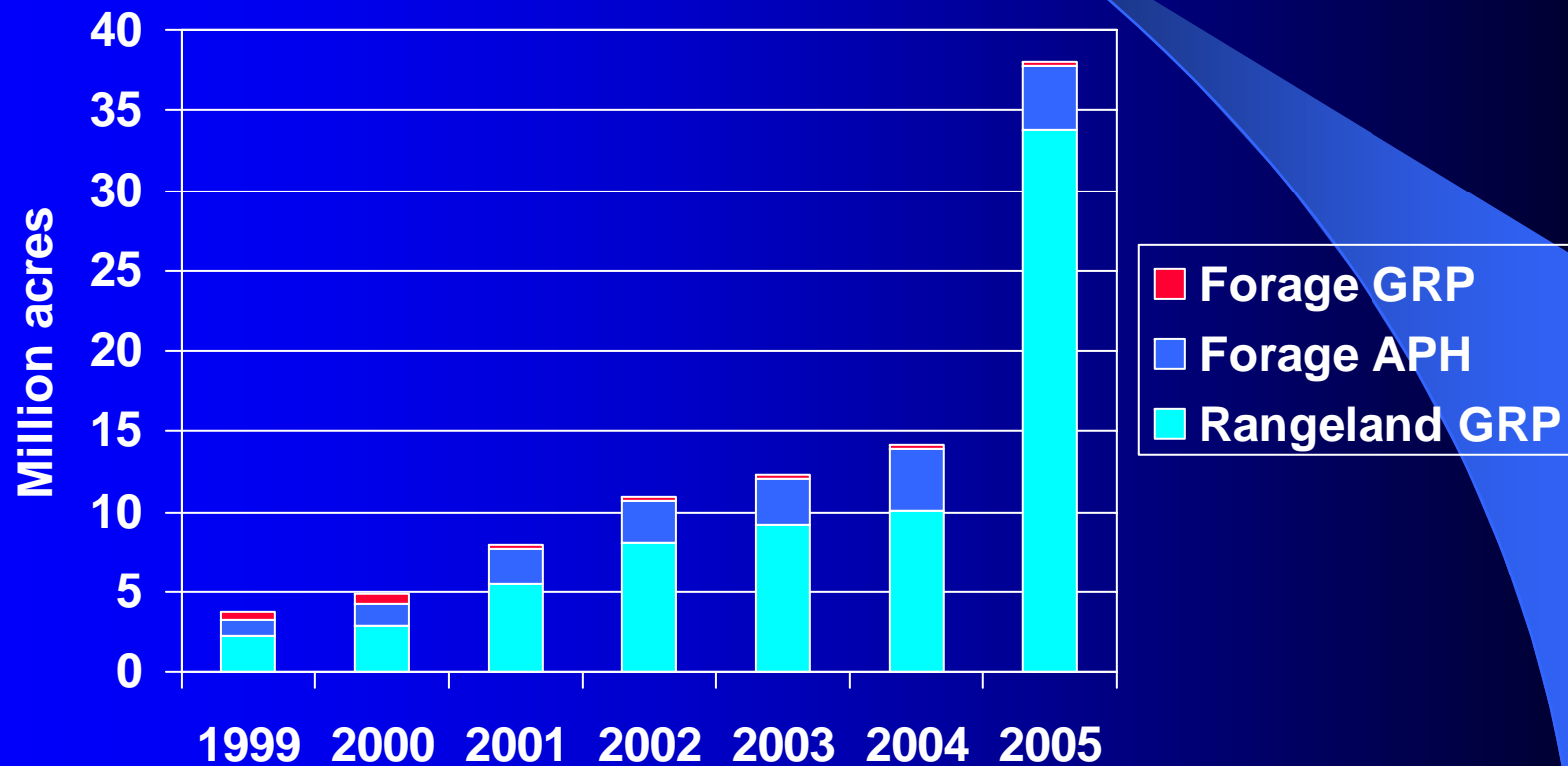
Number of Livestock Insured



Insuring Livestock

- Concerns:
 - Price-based instruments may compete with private market offerings
 - Costs of expanding coverage to all livestock
- Other means of reducing risks to livestock producers:
 - Rangeland and forage insurance

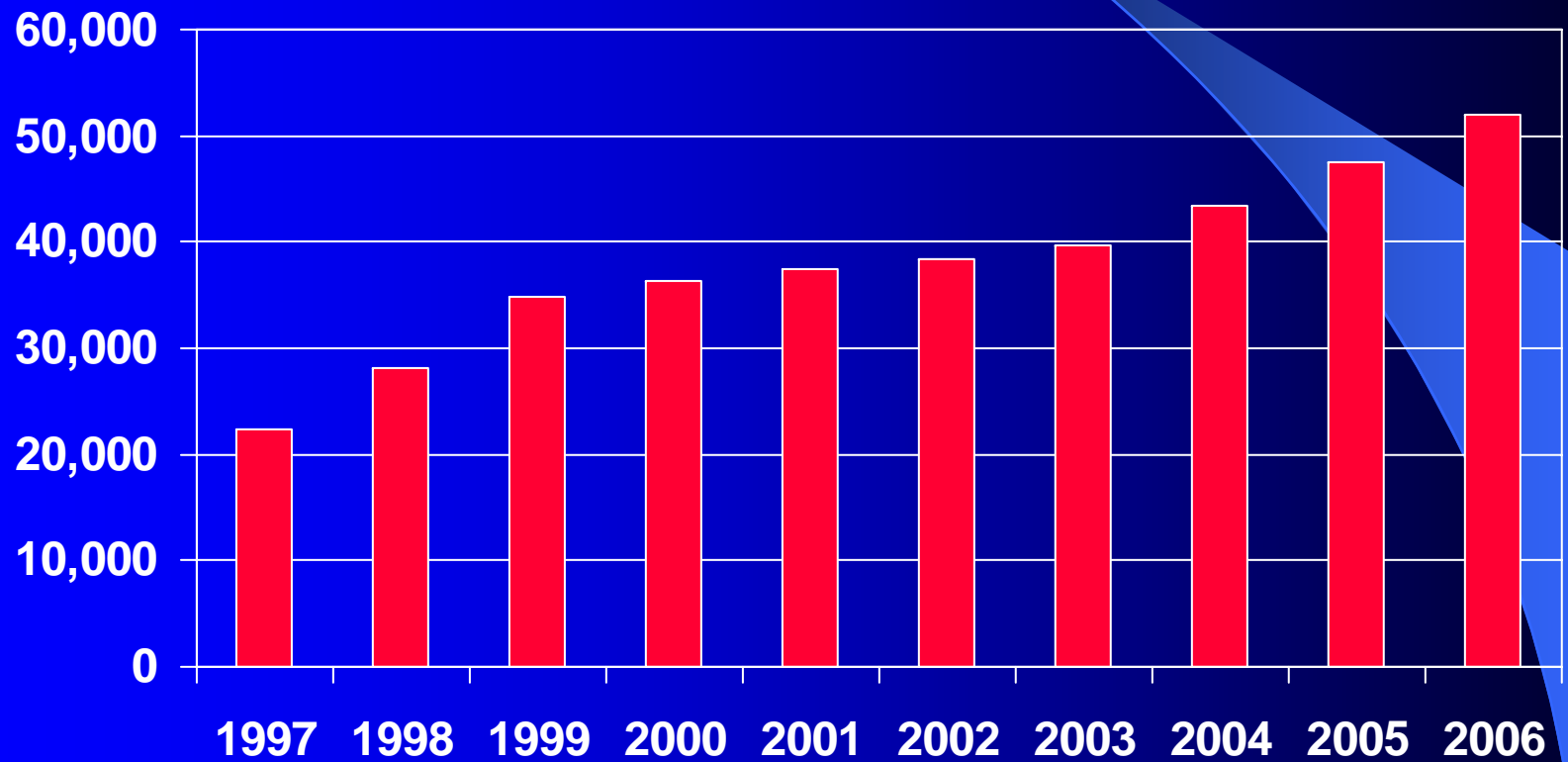
Insuring Forage and Rangeland



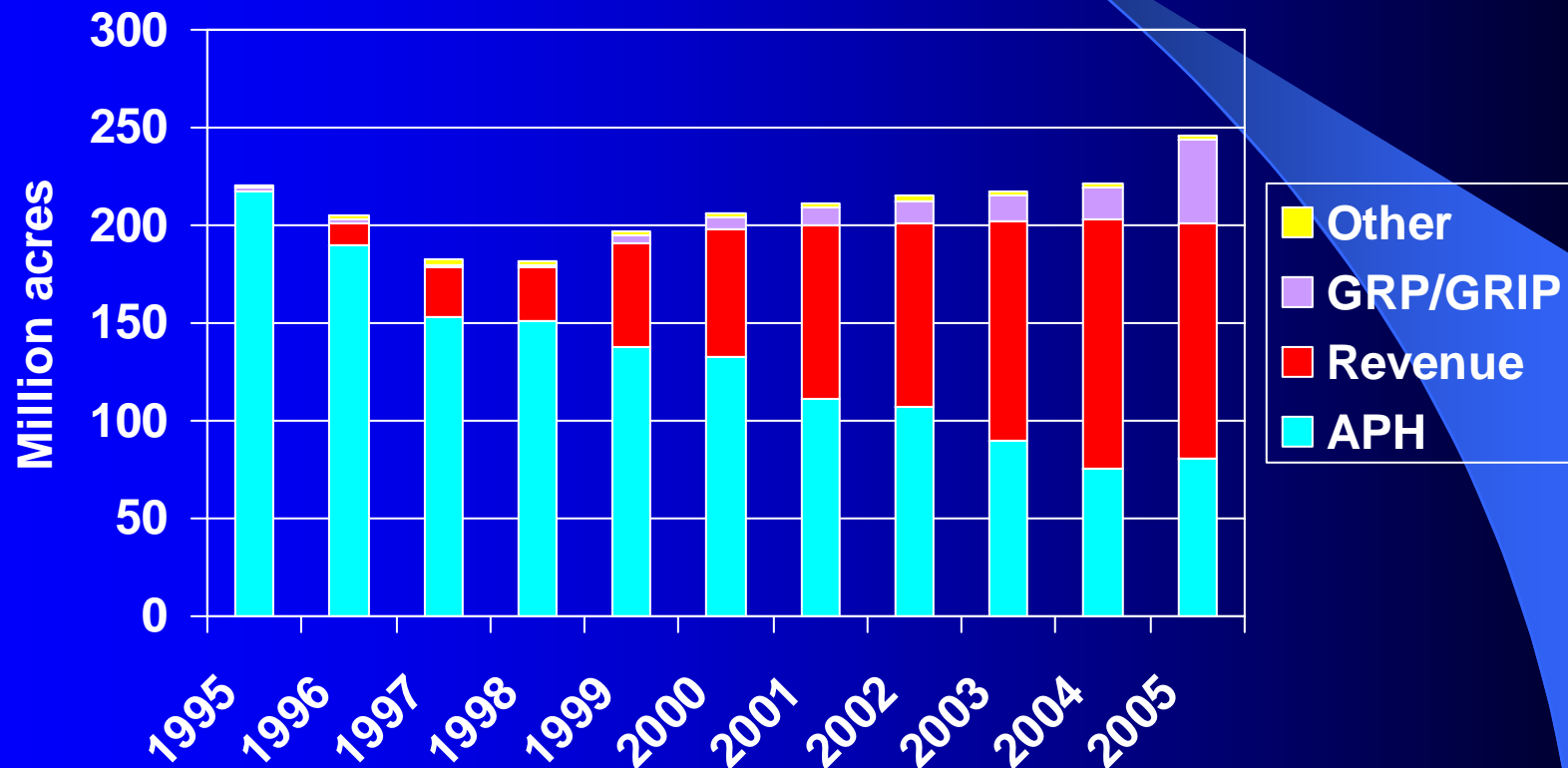
IV. Encouraging Product Development

- Private insurance companies introduce revenue products in mid 1990s (CRC, RA)
- Criticism that there is little incentive to develop products since companies cannot recover R&D costs and approved products may be adopted immediately by competitors at no fee.
- ARPA: private entities may be reimbursed for R&D and maintenance costs for 4 years if products approved by FCIC Board
- Since ARPA, over 40 products have been submitted to the Board for approval
 - Revenue products
 - Livestock
 - AGR-Lite
 - Pasture, range and forage
 - Premium discount plans

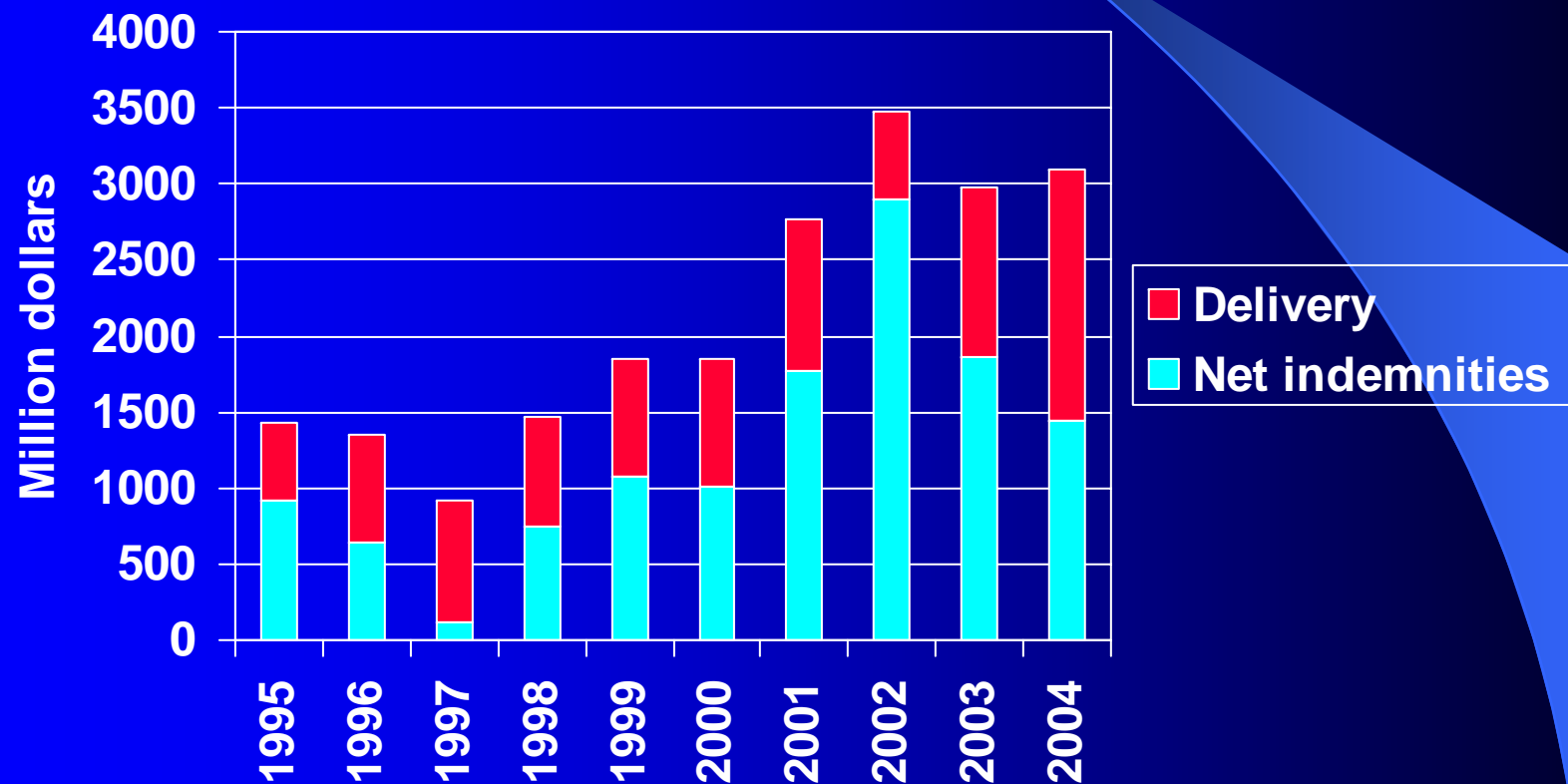
Number of County/Crop Programs Increase by 43% Since 2000



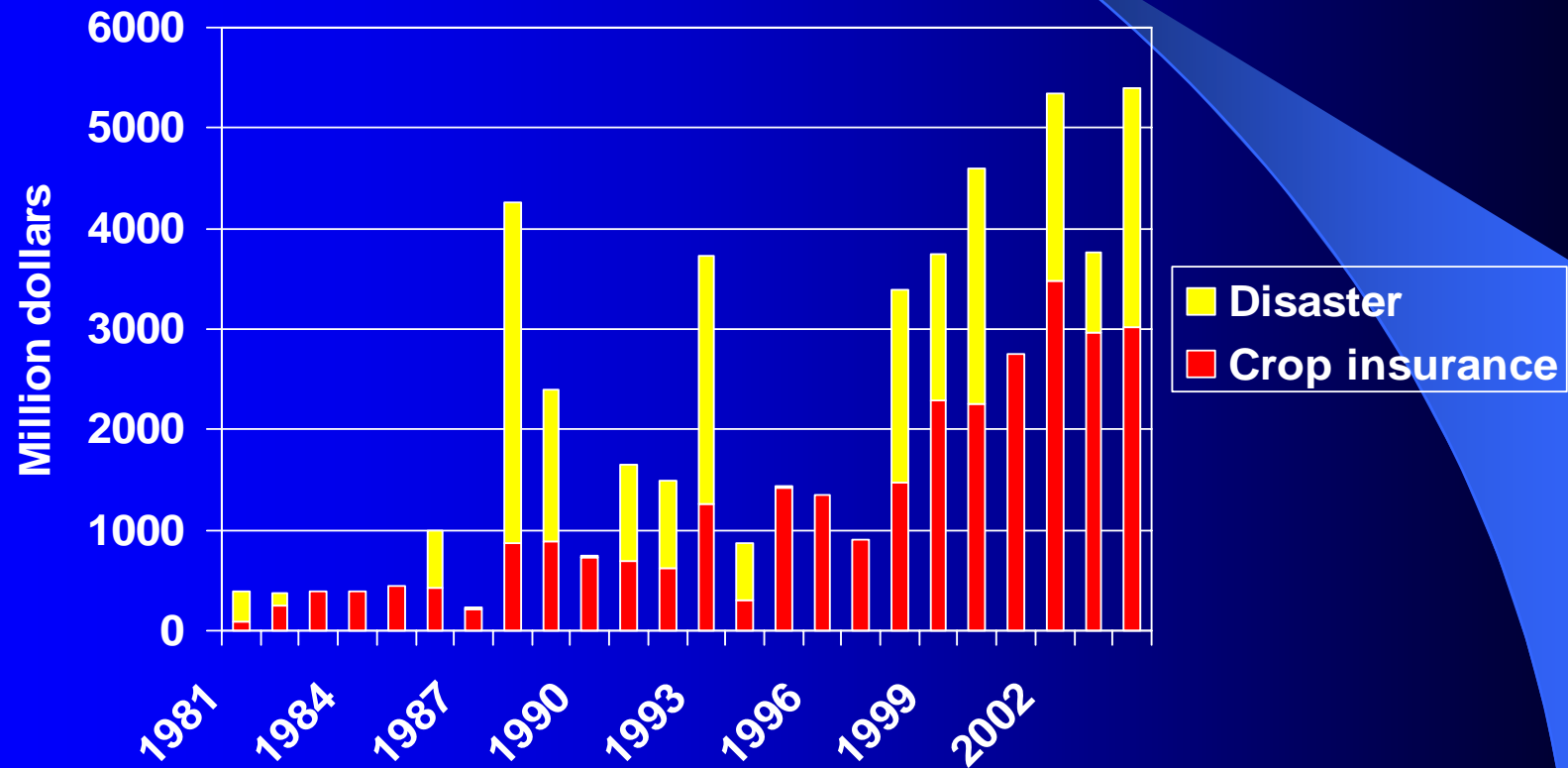
Growth of Revenue Products



V. Program Costs



Total Outlays for Crop Insurance (Including Delivery) and Disaster Assistance



Conclusions

- Under ARPA, producers have insured at higher coverage levels, *but improvements have failed to prevent ad hoc disaster legislation*
- Producers suffering multi-year losses have taken advantage of yield substitution procedures introduced under ARPA, *but concerns remain that procedure inadequately weight bad yield events.*
- Livestock insurance products are now available on limited basis, *however, future expansion will be limited by budget and concerns over competition with privately offered products*
- ARPA has encouraged private sector to develop new risk management instruments. While many of the new products have addressed important niche markets, *most of the increase in premium and area has been in revenue products developed in the late 1990s.*
- Costs of crop insurance program under ARPA have been as projected, *but disaster costs have pushed combined costs over \$4 billion.*

Outlook

- Continued growth in new products, with emphasis on gaps in coverage:
 - rangeland and forage
 - Whole farm insurance (AGR, AGR-lite)
- Continued attention on private sector delivery
 - Risk sharing arrangement
 - Increased competition on rates (premium discounts)
- Attention to outside constraints: WTO, budget, farm bill